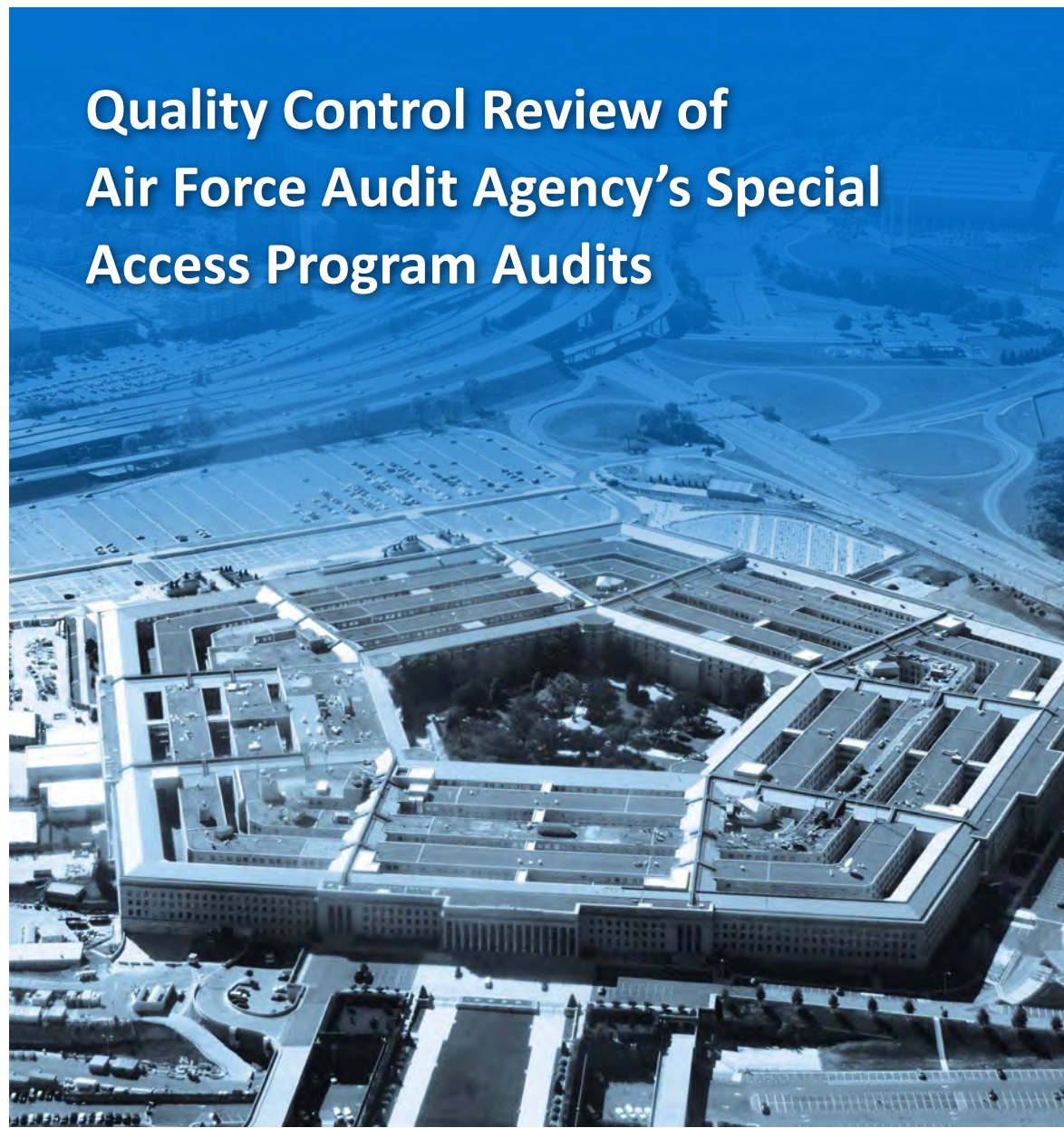




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 9, 2014



Quality Control Review of Air Force Audit Agency's Special Access Program Audits

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.



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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

December 9, 2014

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Quality Control Review of Air Force Audit Agency's Special Access
Program Audits (Report No. DODIG-2015-049)

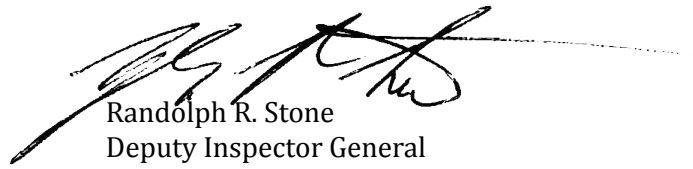
We are providing this report for your information and use. The generally accepted government auditing standards (GAGAS) require that an audit organization performing audits and/or attestation in accordance with GAGAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every three years by reviewers independent of the audit organization being reviewed. As the organization that has audit policy and oversight responsibilities for audits in the DoD, we conducted the external quality control review of the AFAA SAP audits in conjunction with the Army Audit Agency's review of the AFAA non-SAP audits. We conducted this quality control review in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation.

An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance of meeting the objectives of quality control. We tested the AFAA SAP system of quality control for audits to the extent considered appropriate.

Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. In our opinion, the system of quality control for the audit function of AFAA SAP in effect for the period ended September 30, 2013, was designed in accordance with quality standards established by GAGAS. Accordingly, we are issuing pass opinion on your SAP audit quality control system for the review period ended September 30, 2013.

Appendix A contains comments, observations and recommendations where AFAA can improve its quality control system. Appendix B contains the scope and methodology of the review.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) or Carolyn.Davis@dodig.mil.


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Appendix A

Comments, Observations, and Recommendations

We are issuing a pass opinion because we determined that the Air Force Audit Agency's (AFAA) quality control system is adequately designed and functioning as prescribed. The concerns we identified during our review of the selected AFAA audit reports were not cumulatively significant enough to indicate that material deficiencies existed in the AFAA quality control system for complying with generally accepted government auditing standards (GAGAS). We identified areas of concern relating to independence, planning, and reporting. We judgmentally tested the reports for compliance with GAGAS and AFAA audit policies in nine areas to include independence, professional judgment, competence, audit planning, supervision, evidence, audit documentation, reporting and quality control.

Independence

GAGAS 3.02 states that in all matters relating to the audit work, the audit organization and the individual auditor whether government or public must be independent.

AFAA Instruction 65-101, Financial Management, Installation-Level Audit Procedures, dated November 19, 2010, Chapter 2-Audit Planning, Sec. 2.4.4 Independence Statements requires that all audit team members (auditor, technical expert, statistician, team chief and office chief) will sign the most current independence statement at the beginning of each fiscal year (or upon initial project assignment for new employees). The auditor-in-charge is responsible for ensuring a copy of each audit team member's independence statement is included in the project file.

We found that for two of the three audits reviewed, the auditors did not include the independence statement for the AFAA Representative for Special Programs in the audit project file. The AFAA Representative for Special Programs completed an annual independence statement, but auditors did not include it in the audit project file.

Audit Planning

GAGAS 6.55 states the nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the organization, the significance of the work, and the experience of the staff.

AFAA Instruction 65-101, Financial Management, Installation-Level Audit Procedures, dated November 19, 2010, Chapter 2-Audit Planning, Sec. 2.8 Audit Program states that the auditor must prepare a written audit program before starting any in depth audit work. Team chiefs will review the program for adequacy and approve the program before the auditor starts audit testing.

We found that for one of the three audits reviewed the AFAA Representative for Special Programs did not properly follow AFAA audit policies and initial and date the audit program showing supervisory review and approval of the audit program. While the AFAA audit program did not include an initial and date from the AFAA Representative for Special Programs showing approval of the audit program, other documentation in the audit file included discussions between the AFAA Representative for Special Programs and the auditor regarding the audit program.

Reporting

GAGAS 7.13 states in reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

AFAA Instruction 65-101, Financial Management, Installation-Level Audit Procedures, dated November 19, 2010, Chapter 4-Draft Report, Sec.4.3.3.2.8.2 Audit Scope, requires the auditors to include the following paragraphs in the audit report:

- audit coverage,
- sampling methodology,
- data reliability, and
- auditing standards.

We found that for one of three audit reports reviewed the auditors did not properly report the sampling methodology used. Specifically, the body of the audit report stated that sampling was used to support audit conclusions and recommendations, but the scope and methodology section of the report contained a statement that no audit sampling was used during the audit. While the report contained an inaccuracy regarding the use of audit sampling, the inaccuracy did not have an effect on the overall findings and conclusions included in the audit report.

Recommendations, Management Comments and Our Response

Recommendation A.1

We recommend that the AFAA Representative for Special Programs:

Remind auditors to follow AFAA guidance for including independence statements for all individuals who work on the audit in the audit project file.

Management Comments

AFAA management concurred. The AFAA Representative for Special Programs sent a memorandum to all special programs auditors on November 5, 2014, reminding the auditors to comply with AFAA guidance and to include independence statements for all individuals who work on the audit in the audit project file.

Our Response

AFAA comments were responsive. No additional comments are needed.

Recommendation A.2

We recommend that the AFAA Representative for Special Programs:

Follow audit guidance for review of audit programs and document the review.

Management Comments

AFAA management concurred. The AFAA Representative for Special Programs agreed to follow audit guidance for audit program reviews and document the reviews. The AFAA Representative for Special Programs sent a memorandum to all special programs auditors on November 5, 2014, requiring the auditors to get supervisory approval on the audit program before the audit starts and asked for notification from the auditors if the program was either not signed off in the audit files or a classified e-mail was sent indicating approval.

Our Response

AFAA comments were responsive. No additional comments are needed.

Recommendation A.3

We recommend that the AFAA Representative for Special Programs:

Remind auditors to make sure that the scope and methodology section of the audit report corresponds to the body of the audit report to include the reporting of sampling used throughout the audit.

Management Comments

AFAA management concurred. The AFAA Representative for Special Programs sent a memorandum to all special programs auditors on November 5, 2014, reminding the auditors to ensure the scope and methodology section of the audit report corresponds to the body of the audit report and includes the sampling method when used.

Our Response

AFAA comments were responsive. No additional comments are needed.

Appendix B

Scope and Methodology

We limited our review to the adequacy of AFAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected three SAP audits from a universe of nineteen SAP audit reports issued by AFAA SAP auditors during FY 2012 and FY 2013. We tested each audit for compliance with the AFAA system of quality control. The Army Audit Agency conducted a review of the AFAA internal quality control system for non-SAP audits and/or attestation engagements and will issue a separate report. The Deputy Inspector General for Policy and Oversight will issue an overall opinion report on the AFAA internal quality control system that will include the combined results of the SAP and non-SAP audit reviews. In performing our review, we considered the requirements of quality control standards contained in the 2011 revision of GAGAS issued by the Comptroller General of the United States. GAGAS 3.96 (2011 revision) contains a requirement for an external peer review at least once every 3 years. GAGAS 3.96 (2011 revision) states:

The audit organization should obtain an external peer review at least once every 3 years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We conducted this review in accordance with standards and guidelines established in the November 2012 update to the Council of the Inspectors General on Integrity and Efficiency "Guide for Conducting External Peer Reviews of the Audit Organizations of the Federal Offices of Inspector General," and the Quality Standards for Inspection and Evaluation, dated January 2011. The Army Audit Agency used this guide in the review of non-SAP audits at the AFAA. We reviewed audit documentation, interviewed AFAA auditors, and reviewed AFAA audit policies.

We reviewed the DoD OIG Report No. D-2011-6-009, “Quality Control Review of Air Force Audit Agency’s Special Access Program Audits” dated August 15, 2011. We performed this review from July to September 2014 at three AFAA offices. We used the following criteria to select the audits under review:

- began with the FY 2013 audits in order to review the most current quality assurance procedures in place,
- eliminated more than one audit report produced from the same project, and
- eliminated audits that have the same or similar titles to ensure review of multiple types of projects.

Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Management Comments

Director of Operations, Air Force Audit Agency



DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

20 November 2014

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, POLICY AND OVERSIGHT,
DEPARTMENT OF DEFENSE INSPECTOR GENERAL

FROM: HQ AFAA/DO
1500 West Perimeter Road, Suite 4700
Joint Base Andrews MD 20762

SUBJECT: Management Comments, 2014 DoD-IG Quality Control Review of the Air Force
Audit Agency's Special Access Program Audits

We reviewed the draft report of audit and concur with the issues and recommendations.
Our response is attached.

We express our thanks to your staff who conducted this review in a professional and
effective manner. Please direct questions to [REDACTED]

BROMLEY.CATHER
INE.M.1123889238
CATHERINE M BROMLEY
Director of Operations

Digitally signed by
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DN: cn=US, o=U.S. Government, ou=DoD,
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Attachment:
Management Comments

Director of Operations, Air Force Audit Agency (cont'd)

Management Comments to the DoD-IG Quality Control Review of the Air Force Audit Agency's Special Access Program Audits

The AFAA Representative for Special Programs should:

Recommendation 1. Remind auditors to follow AFAA guidance for including independence statements for all individuals who work on the audit in the audit project file.

Recommendation 2. Follow audit guidance for review of audit programs and document the review.

Recommendation 3. Remind auditors to make sure that the scope and methodology section of the audit report corresponds to the body of the audit report to include the reporting of sampling used throughout the audit.

AFAA Comments. AFAA management concurs with the issues identified and recommendations 1, 2, and 3, and provides the following comments:

Recommendation 1. Concur. The AFAA Representative for Special Programs sent a letter to all special programs auditors reminding them to follow AFAA guidance and ensure independence statements for all individuals who work on the audit are in the audit project file. (Closed - 5 November 2014)

Recommendation 2. Concur. The AFAA Representative for Special Programs will follow audit guidance for audit program reviews and document the reviews. He also reminded special program auditors to ensure the audit project files contain a copy of the audit program approved by the supervisor. (Closed - 5 November 2014).

Recommendation 3. Concur. The AFAA Representative for Special Programs reminded special program auditors to ensure the scope and methodology section of the audit report corresponds to the body of the audit report to include reporting the sampling method used. (Closed – 5 November 2014)

Attachment

Acronyms and Abbreviations

| | |
|--------------|--|
| AFAA | Air Force Audit Agency |
| GAGAS | Generally Accepted Government Auditing Standards |
| SAP | Special Access Programs |



Whistleblower Protection

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The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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